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# Country Studies

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## Finance

The traditional banking system was inherited from the AngloEgyptian col 1955). When the National Bank of Egypt opened in Khartoum in 1901, it ob position as banker to and for the government, a "semi-official" central t followed, but the National Bank of Egypt and Barclays Bank dominated and in Sudan until after World War II. Post-World War II prosperity created increasing number of commercial banks. By 1965 loans to the private se reached £Sd55.3 million.

Before Sudanese independence, there had been no restrictions on the r between Egypt and Sudan, and the value of the currency used in Sudan \ Egypt. This situation was unsatisfactory to an independent Sudan, which est Currency Board to replace Egyptian and British money. It was not a central t not accept deposits, lend money, or provide commercial banks with cash and the Bank of Sudan was established to succeed the Sudan Currency Board ar Sudanese assets of the National Bank of Egypt. In February 1960, the Bar acting as the central bank of Sudan, issuing currency, assisting the deve providing loans, maintaining financial equilibrium, and advising the governme

There were originally five major commercial banks (Bank of Khartoum, An I Commercial Bank, the People's Cooperative Bank, and the Unity Bank) subsequently grew. The public was dissatisfied with the commercial banks, they were reluctant to lend capital for longterm development projects. government decreed the 1970 Nationalization of Banks Act, all domestic controlled by the Bank of Sudan.

In 1974, to encourage foreign capital investment, foreign banks were urged ventures in association with Sudanese capital. Banking transactions with operating in Sudan were facilitated so long as they abided by the rulings of and transferred a minimum of £Sd3 million into Sudan. Known as the "open system was partly a result of Nimeiri's disillusion with the left after the unsuc

coup of 1971. Several foreign banks took advantage of the opportunity, most notably the Faisal Islamic Bank, Chase Manhattan Bank, and the Arab Authority for Investment and Development.

In addition, the government established numerous specialized banks, such as the Agricultural Bank of Sudan (1959) to promote agricultural ventures, the Industrial Bank (1961) to promote private industry, the Sudanese Estates Bank (1966) to provide housing loans, and the Sudanese Savings Bank established to make small loans particularly in the rural areas. This system worked effectively until the late 1970s and 1980s, when the declining oil prices and resulting balance-of-payments problems, spiraling external debt, the increase in inflation, and the appearance of Islamic banking disrupted the financial system.

## **Islamic Banking**

The Faisal Islamic Bank, whose principal patron was the Saudi prince, Muhammad bin Saud, was officially established in Sudan in 1977 by the Faisal Islamic Bank. The "door" policy enabled Saudi Arabia, which had a huge surplus after the 1973 oil embargo, to invest in Sudan. Members of the Muslim Brotherhood and its political arm, the National Islamic Front, played a prominent role on the board of directors of the Faisal Islamic Bank, thus securing the bank's position in Sudan. Other Islamic banks followed. As a consequence, two Khatmiyyah religious groups and their political parties, the Umma and the Democratic Party, formed their own Islamic banks.

The Faisal Islamic Bank enjoyed privileges denied other commercial banks (such as tax breaks on assets, profits, wages, and pensions), as well as guarantees against nationalization. Moreover, these privileges came under Nimeiri's protection as he became committed to applying Islamic doctrine to all aspects of the economy. The theory of Islamic banking is derived from the Quran and the Prophet Muhammad's teachings against exploitation and the unjust acquisition of wealth, defined as *riba*, or, interest or usury. Profit and trade are encouraged and provide the four pillars of banking. The prohibitions against interest are founded on the Islamic conception that profit results from an individual's creative labor or from exchange of goods or services; money loaned falls within neither of these two concepts and is thus unjustified.

To resolve this dilemma from a legal and religious point of view, Islamic banking uses three common terms: *musharakah* or partnership for production; *mudharabah* or joint venture, where one party provides the capital, the other the labor; and *murabbahah* or payment on purchases, similar in practice to an overdraft and the most common banking arrangement in Sudan. To resolve the prohibition on interest, a traditional overdraft would be changed to a *murabbahah* contract. The fundamental difference between the Islamic and traditional banking systems is that in an Islamic system deposits are shares, which does not guarantee their nominal value. The appeal of the Islamic banks to government support and patronage, enabled these institutions to acquire 20 percent of Sudanese deposits. Politically, the popularity and wealth of Islamic banks provided a financial basis for funding and promoting Islamic policies in government.

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